

L.G.Balakrishnan & Brothers Ltd.

No. of shares (m)	31.4
Mkt cap (Rs crs/\$m)	1747/225.2
Current price (Rs/\$)	557/7.2
Price target (Rs/\$)	682/8.8
52 W H/L (Rs.)	736/300
Book Value (Rs/\$)	341/4.4
Beta	1.1
Daily volume (avg. monthly)	118080
P/BV (FY22/23e)	1.6/1.3
EV/EBITDA (FY22/23e)	3.9/3.4
P/E (FY22/23e)	7.6/6.5
EPS growth (FY21/22/23e)	60.0/85.9/17.1
OPM (FY21/22/23e)	15.8/18.5/18.3
ROE (FY21/22/23e)	16.1/24.0/22.6
ROCE(FY21/22/23e)	15.0/22.5/21.5
D/E ratio (FY21/22/23e)	0.1/0.1/0.1
BSE Code	500250
NSE Code	LGBBROSLTD
Bloomberg	LGBB IN
Reuters	LGB.NS

Shareholding pattern

	%
Promoters	34.3
MFs / Banks / FIs	11.8
FPIs	7.7
Govt. Holding	0.0
Public & others	46.2
Total	100.0

As on March 31, 2022

Recommendation

BUY

Analyst

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Company Brief

L G Balakrishnan (LGB) manufactures roller chains and undertakes metal forming, including warm & cold forging, fine blanking and machined parts.

Quarterly Highlights

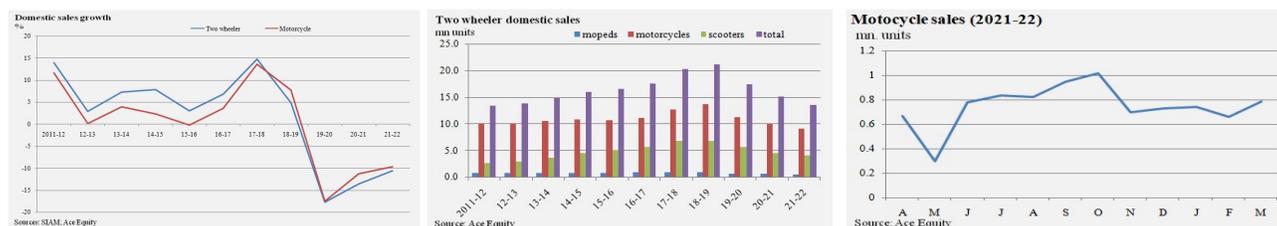
- Helped by barely immodest recovery in metal forming business and stable margins in its transmission business - despite increased volatility in raw material prices - LGB posted 12% growth in revenues to Rs 558.89 crs in Q4 (compared with Rs 499.08 crs in same period last year) followed by 15.8% rise in post tax earnings (adjusted); pretax earnings was propelled by exceptional income of Rs 5.02 crs on account of subsidy received.
- Galvanized by new product launches, metal forming business reported (probably) its highest ever quarterly margin at 16.2% when compared with reading of 9.3% in the same quarter last fiscal and 12.3% in Q3. Wherefore, its EBIT rose to Rs 18.53 crs in Q4 from Rs 9.19 crs in the same quarter a year ago. Full year reading has been scarcely unimpressive for its EBIT leapt to Rs 60.16 crs from a measly Rs 4.25 crs in FY21.
- No scale of metal forming business can match the solidity of the transmission which reported 13.4% growth in EBIT in Q4 on 10.9% rise in revenues. Though EBIT margin shrunk to 16.6% in Q4 from 18.7% in Q3, it still bettered than the one in Q4 last year (16.3%). For full year too, the transmission business margins stood at 16.2% compared to 14% in FY21, thus supporting well-nigh 50% growth in transmission business EBIT to Rs 270.56 crs from Rs 181.66 crs.
- The stock currently trades at 6.5x FY23e EPS of Rs 85.29. LBG's business scaling depends on revival of domestic two wheeler dispatches and LGB's higher penetration in replacement and export markets, though nature of its products favour little scaling due to bigger replacement cycle. Recent surge in commodity prices globally would pose no small challenges in passing on the higher costs. Return on capital would be slightly strained this fiscal not least due to capital investments in industrial chains business. Weighing odds, we maintain our buy recommendation on the stock with revised target of Rs 682 (previous target: Rs 565) based on 8x FY23 earnings.

Consolidated (Rs crs)	FY19	FY20	FY21	FY22	FY23e
Income from operations	1688.00	1542.83	1608.99	2102.09	2409.39
Other Income	14.87	22.49	20.59	34.78	19.62
EBITDA (other income included)	223.41	209.78	274.37	423.26	459.66
Profit after MI & associate profit	91.33	76.85	122.95	228.63	267.76
EPS(Rs)	29.09	24.48	39.17	72.83	85.29
EPS growth (%)	7.1	-15.9	60.0	85.9	17.1

Outlook & Recommendation

Automobile industry

Notwithstanding the smart recovery expected in India automobile industry in the current fiscal, the Federation of Automobile Dealers Associations (FADA) expects the Indian auto industry to reach pre-pandemic highs only by FY24. It states in its release that the Indian auto industry's near-term outlook will continue to remain a challenge due to the ongoing Russia-Ukraine war, lockdown in China, rising fuel prices and will continue to increase and further hit sentiments on lowering the spending.



FADA has also anticipated that there would be no further impact of Covid-19 in the Indian auto industry with vaccination being the shield. Vinkesh Gulati, FADA President, reckons that the two-wheeler segment, which has been affected by rural stress, saw further stress last year due to rise in vehicle ownership cost coupled with rising fuel cost. He expects 2W OEMs to launch special schemes to boost flagging sales.

Hero Moto Corp, however, expects the two-wheeler industry to bounce back in the current fiscal with pickup in economic activity picking up and higher rural incomes due to rising grain prices. It posits that the demand for two-wheelers would soon get back to its FY19 peak not least due to under penetration, growing need for mobility and better financing options.

India Ratings, however, has maintained neutral rating on the Indian automobile industry largely due to supply side constraints and muted rural demand. It expects semiconductor chip shortages to persist for sometime before improving gradually. Increased cost of ownership, a slower revival in the purchasing power of lower-end consumers and a muted rural demand could limit two-wheelers growth to below 10%, reckons the rating agency. Further it adds that ongoing geopolitical tensions amid Russia-Ukraine situation could increase commodity prices, crude oil prices, and exacerbate supply chain issues.

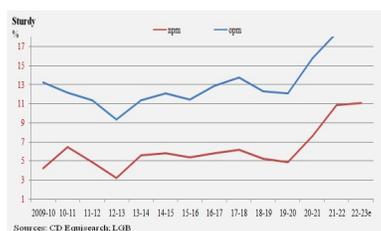
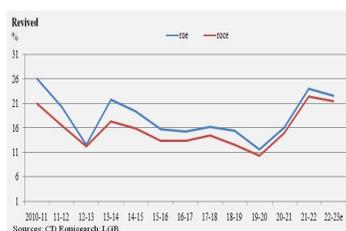
Financials & Valuation

With firm resolve of de-risking its business through diversification, the company has earmarked a capex of Rs 350 crs in setting up industrial chains capacity which would be invested over the next five years; Rs 125 crs planned in the current fiscal. With revenue potential of some 1.2x, this business would serve wide range of industries including sugar, sewage treatment. With its margin profile more like LGB's existing auto transmission business, the business has the potential to facilitate scaling though at the cost of lesser focus on its entrenched auto business. For achieving greater self-reliance, LGB would continue to focus on building in-house capacities of manufacturing infrastructure.

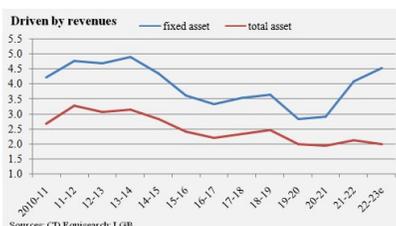
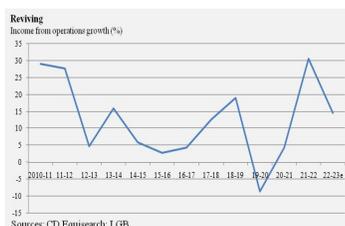


Though industrial chains business would help rev up LGB's transmission business, yet much of its vivacity rest on auto chains penetration in replacement and export markets. Over the last few quarters margin gains in transmission business has come more due to higher penetration in exports and replacement market than due to strong volume growth. Yet little such gains are expected in the current fiscal not least due to high volatility in raw material prices (mainly steel) and fragile state of the newer industrial chains business.

Yet risks abound not least due to increased volatility in foreign exchange markets and brewing crisis in Europe which has the potential to hit LGB's exports - 50% of its total exports sail to Europe; though overall exports account for some 5% of its transmission business revenues. Further increase in steel prices would be little remunerative not least due to client's friction in accepting such increases. Slowdown in consumer demand to rising inflation and fuel prices could prove detrimental to two wheeler demand.



The stock currently trades at 6.5x FY23e EPS of Rs 85.29. Post tax earning is estimated to rise by 17.1% in the current fiscal on stable margins. As in the past, the entrenched transmission business would do much of the weight lifting for it is estimated to contribute 82% to allocable EBIT in the current fiscal. Yet the business faces on no small headwinds from dwindling state of Indian automobile industry and brutal volatility in commodity prices, particularly, coal, crude oil and steel. Balancing odds, we maintain our buy recommendation on the stock with revised target of Rs 682 (previous target: Rs 565) based on 8x FY23 earnings. For more info refer to our August report



Cross Sectional Analysis

Company	Equity*	CMP	Mcap*	Sales	PAT*	OPM ^a	NPM ^a	Int Cov.	ROE ^a	Mcap / sales	P/BV	P/E
Gabriel India	14	110	1580	2231	91	7.2	4.1	17.6	12.9	0.7	2.1	17.3
LG Bala	31	557	1747	2102	229	18.5	10.9	38.0	24.0	0.8	1.6	7.6
Minda Corp	48	204	4870	2976	137	9.9	4.4	6.7	11.8	1.6	4.0	35.4
Munjal Showa	8	99	395	1080	11	0.7	1.0	60.9	1.7	0.4	0.6	35.9

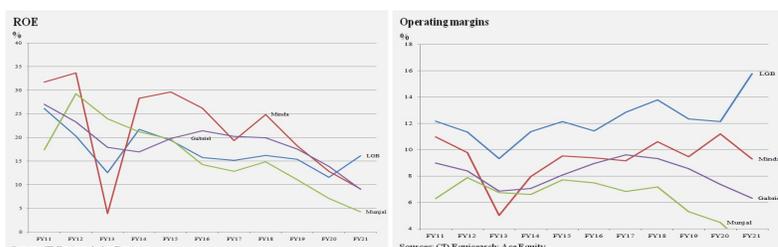
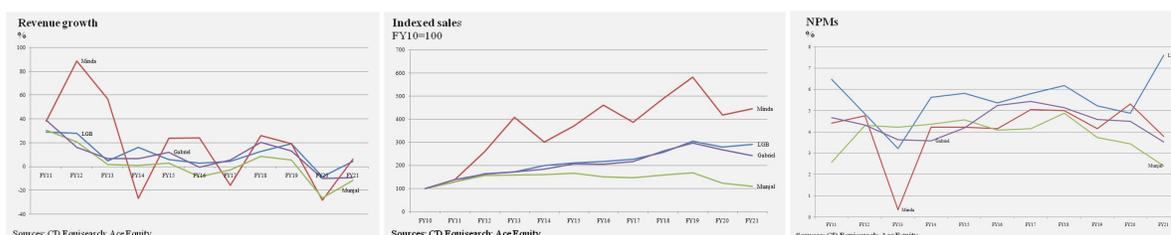
*figures in crores; a:calculations on ttm basis

Companies not truly comparable due to product dissimilarity

As its PLI scheme application as been accepted under Component Champion Incentive Scheme, Minda Corp can launch new products. Despite semi conductor shortage woes plaguing the industry, its consolidated revenues surged by 19.4% to Rs 947.76 crs in Q4 when compared with Rs 794.09 crs in the same quarter a year ago. Post tax earnings too rose by some 39% to Rs 75.86 crs on yoy basis. OPMs expanded by some 30 bps last quarter.

Presumably affected by lower offtake, Munjal Showa published 23.7% decline in revenues uin Q3 followed by nerve-wracking decline in post tax earnings - Rs 0.97 crs Vs Rs 17.27 crs. Pumelled by lower reventuues, OPMs turned flimsy as it fell to a measly 0.13% when compared with 5.4% in the third quarter of previous fiscal. The company reckons that the transition of automobile industry towards hybrids and electric vehicles will cause disruption in the industry which will influence the product portfolio of auto componenet makers.

Much of the Gabriel's growth in two-wheeler and three wheeler revenues in first nine months of the current fiscal was accounted by increased market share with key clients annd new product launches. For propelling the overall aftermarket business, Gabriel would focus on increased visibility in B&C class towns and leverage the brand equity by launching new products. Emphasisius is being laid on enhancing exports by leveraging relationships with global OEMs operating in India and increasing presence in aftermarket business in Latin America, Africa and North America.



Financials

Quarterly Results -Consolidated

Figures in Rs crs

	Q4FY22	Q4FY21	% chg.	FY22	FY21	% chg.
Income from operations	558.89	499.08	12.0	2102.09	1608.99	30.6
Other Income	8.35	11.63	-28.2	34.78	20.59	68.9
Total Income	567.24	510.71	11.1	2136.87	1629.58	31.1
Total Expenditure	454.01	410.37	10.6	1713.61	1355.22	26.4
PBIDT (other income included)	113.23	100.34	12.8	423.26	274.37	54.3
Interest	2.64	1.96	35.2	8.36	10.93	-23.5
Depreciation	20.60	20.75	-0.7	83.22	83.32	-0.1
PBT	89.99	77.63	15.9	331.68	180.12	84.1
Tax	26.39	19.61	34.6	85.94	47.27	81.8
PAT	63.59	58.02	9.6	245.74	132.84	85.0
Minority interest	0.07	0.03	101.8	0.27	-0.61	-143.2
Associate profit	-	-	-	-	-	-
Net profit after MI&AP	63.53	57.99	9.6	245.48	133.46	83.9
Extraordinary Item	3.72	6.34	-41.3	16.85	10.50	60.4
Adjusted Net Profit	59.81	51.65	15.8	228.63	122.95	85.9
EPS (F.V. 10)	19.05	16.45	15.8	72.83	39.17	85.9

Segment Results

Figures in Rs crs

	Q4FY22	Q4FY21	% chg.	FY22	FY21	% chg.
Segment Revenue						
Transmission	444.37	400.57	10.9	1669.89	1302.06	28.3
Metal forming	114.52	98.51	16.3	432.20	306.93	40.8
Total	558.89	499.08	12.0	2102.09	1608.99	30.6
Segment EBIT						
Transmission	73.89	65.14	13.4	270.56	181.66	48.9
Metal forming	18.53	9.19	101.7	60.16	4.25	1316.2
Total	92.42	74.32	24.4	330.72	185.91	77.9
Interest	2.64	1.96	35.2	8.36	10.04	-16.8
Unallocable exp	-0.21	-5.27	-96.0	-9.32	-4.25	119.3
PBT	89.99	77.63	15.9	331.68	180.12	84.1

Financials

Income Statement - Consolidated

Figures in Rs crs

	FY19	FY20	FY21	FY22	FY23e
Income from operations	1688.00	1542.83	1608.99	2102.09	2409.39
<i>Growth (%)</i>	19.0	-8.6	4.3	30.6	14.6
Other Income	14.87	22.49	20.59	34.78	19.62
Total Income	1702.87	1565.32	1629.58	2136.87	2429.01
Total Expenditure	1479.46	1355.54	1355.22	1713.61	1969.35
EBITDA (other income included)	223.41	209.78	274.37	423.26	459.66
Interest	12.74	16.28	10.93	8.36	10.53
EBDT	210.67	193.49	263.43	414.90	449.13
Depreciation	68.05	78.66	83.32	83.22	87.41
Tax	45.99	24.72	47.27	85.94	93.69
Net profit	96.63	90.12	132.84	245.74	268.04
Minority interest	-0.01	-0.35	-0.61	0.27	0.28
Associate profit	2.93	1.16	-	-	-
Net profit after MI&AP	99.57	91.63	133.46	245.48	267.76
Extraordinary item	8.24	14.78	10.50	16.85	-
Adjusted Net Profit	91.33	76.85	122.95	228.63	267.76
EPS (Rs.)	29.09	24.48	39.17	72.83	85.29

Segment Results

Figures in Rs crs

	FY19	FY20	FY21	FY22	FY23e
Segment Revenue					
Transmission	1246.93	1188.36	1302.06	1669.89	1925.33
Metal forming	441.07	354.47	306.93	432.20	484.06
Net sales	1688.00	1542.83	1608.99	2102.09	2409.39
Segment EBIT					
Transmission	107.31	105.58	181.66	270.56	308.05
Metal forming	40.99	9.99	4.25	60.16	67.77
Sub Total	148.30	115.58	185.91	330.72	375.82
Unallocable exp (net of income)	-5.58	-14.50	-4.25	-9.32	4.47
Interest	11.26	15.24	10.04	8.36	9.63
PBT	142.62	114.84	180.12	331.68	361.72

Consolidated Balance Sheet

Figures in Rs crs

	FY19	FY20	FY21	FY22	FY23e
SOURCES OF FUNDS					
Share Capital	31.39	31.39	31.39	31.39	31.39
Reserves	634.59	674.75	848.00	1101.07	1335.19
Total Shareholders Funds	665.98	706.14	879.39	1132.46	1366.58
Minority Interest	14.85	4.04	1.72	2.06	2.34
Long term debt	99.19	95.12	31.90	31.76	19.76
Total Liabilities	780.02	805.30	913.01	1166.28	1388.68
APPLICATION OF FUNDS					
Gross Block	682.38	809.41	856.03	895.43	1060.43
Less: Accumulated Depreciation	150.81	224.73	303.73	386.95	474.36
Net Block	531.57	584.68	552.30	508.48	586.07
Capital Work in Progress	36.71	8.89	6.33	14.54	15.00
Investments	55.47	19.58	62.94	104.30	117.75
Current Assets, Loans & Advances					
Inventory	306.72	289.69	301.28	435.78	457.57
Sundry Debtors	220.79	174.61	246.65	293.78	311.40
Cash and Bank	9.65	5.02	146.44	286.56	399.54
Other Assets	26.88	28.10	38.13	37.27	41.27
Total CA & LA	564.04	497.41	732.50	1053.38	1209.78
Current liabilities	409.77	300.16	439.73	514.45	536.09
Provisions	0.38	0.46	0.39	0.31	0.31
Total Current Liabilities	410.15	300.62	440.12	514.76	536.40
Net Current Assets	153.89	196.79	292.38	538.61	673.38
Net Deferred Tax (net of liability)	-20.17	-12.45	-14.12	-13.40	-15.40
Other Assets (Net of liabilities)	22.54	7.81	13.18	13.75	11.88
Total Assets	780.02	805.30	913.01	1166.28	1388.68

Key Financial Ratios

	FY19	FY20	FY21	FY22	FY23e
Growth Ratios					
Revenue (%)	19.0	-8.6	4.3	30.6	14.6
EBIDTA (%)	5.8	-10.1	37.0	53.8	14.8
Net Profit (%)	7.1	-15.9	60.0	85.9	17.1
EPS (%)	7.1	-15.9	60.0	85.9	17.1
Margins					
Operating Profit Margin (%)	12.4	12.1	15.8	18.5	18.3
Gross Profit Margin (%)	11.8	11.3	15.5	18.7	18.6
Net Profit Margin (%)	5.2	4.9	7.6	10.9	11.1
Return					
ROCE (%)	12.6	10.3	15.0	22.5	21.5
ROE (%)	15.4	11.6	16.1	24.0	22.6
Valuations					
Market Cap / Sales	0.7	0.3	0.6	0.8	0.7
EV/EBIDTA	6.7	3.3	3.4	3.7	3.4
P/E	13.2	6.5	7.8	7.4	6.5
P/BV	1.9	0.7	1.2	1.6	1.3
Other Ratios					
Interest Coverage	11.2	6.8	16.2	38.0	35.4
Debt-Equity Ratio	0.3	0.2	0.1	0.1	0.1
Current Ratio	1.3	1.7	1.6	1.9	2.1
Turnover Ratios					
Fixed Asset Turnover	3.6	2.8	2.9	4.1	4.5
Total Asset Turnover	2.5	2.0	1.9	2.1	2.0
Debtors Turnover	8.1	7.8	7.6	7.8	8.0
Inventory Turnover	5.3	4.5	4.6	4.6	4.4
Creditors Turnover	5.7	5.4	5.3	6.4	7.0
WC Ratios					
Debtor Days	44.9	46.8	47.8	46.9	45.8
Inventory Days	69.1	80.3	79.6	78.5	82.8
Creditor Days	63.8	68.0	68.3	57.0	52.3
Cash Conversion Cycle	50.1	59.1	59.1	68.4	76.3

Cumulative Financial Data

Figures in Rs crs	FY15-17	FY18-20	FY21-23e
Income from operations	3637	4649	6120
Transmission revenues	2672	3488	4897
Metal forming revenues	585	1167	1223
Transmission to total (%)	73.5	75.0	80.0
Transmission EBIT	231	317	760
Transmission EBIT margin (%)	8.7	9.1	15.5
Operating profit	442	591	1082
EBIT	318	396	867
PBT	267	356	837
PAT	199	253	619
Dividends	38	55	126
OPM (%)	12.2	12.7	17.7
NPM (%)	5.7	5.4	10.1
Interest coverage	6.2	9.7	29.1
ROE (%)	16.7	14.3	20.7
ROCE (%)	14.8	12.7	19.3
Debt-equity ratio*	0.3	0.2	0.1
Fixed asset turnover	3.8	3.2	3.6
Total asset turnover	2.5	2.2	1.9
Debtors turnover	7.5	8.9	8.4
Inventory turnover	4.9	5.2	4.5
Creditors turnover	5.9	5.9	6.3
Debtors days	48.4	41.2	43.5
Inventory days	75.1	70.2	81.2
Creditor days	61.7	62.2	58.3
Cash conversion cycle	61.8	49.2	66.4
Dividend payout ratio (%)	18.6	20.2	19.4

FY15-17 implies two years ending fiscal 17; *as on terminal year;

Propitious changes in product mix in the transmission business in the last few quarters- increased revenue share of high margin yielding exports and replacement market - would help LGB record distinct increases in overall OPMs during FY21-23e period - 17.7% Vs 12.7% in FY18-20 period (see table); though miraculously recovery in margins in metal forming business in FY22 would also do its bit to support margins. Cumulative post tax earnings, as a consequence would more than double to Rs 619 crs from Rs 253 crs in the three year period ended FY18-20 with net profit margin rising to 10.1% from 5.4% in FY18-20.

Prodded not as much by higher utilization of assets - fixed asset turnover to marginally rise to 3.6 from 3.4 - than by increased earnings, LGB's ROE would barely remain suppressed for it is expected to jump to 20.7% in FY21-23 period from 14.3% in FY18-20 (see table). Increased earnings would also manifest itself in perceptible jump in interest coverage ratio. Cash conversion cycle is estimated to lengthen to some 66 days from 49 days in FY18-20 not least due to sharp jump in inventory days - which would jump mainly due to increased stock of materials in view of higher volatility in commodity prices globally in last few months.

Financial Summary – US dollar denominated

	FY19	FY20	FY21	FY22	FY23e
Equity capital	4.5	4.2	4.3	4.1	4.0
Shareholders funds	91.5	91.7	113.3	141.1	168.1
Total debt	31.5	17.7	11.4	13.2	10.5
Net fixed assets (incl CWIP)	80.1	76.8	73.9	67.0	75.5
Investments	8.0	2.6	8.6	13.8	15.2
Net current assets	19.5	26.1	35.5	64.8	80.7
Total assets	107.9	104.9	117.9	145.6	170.9
Revenues	241.5	217.7	216.8	282.1	310.6
EBITDA	30.2	26.8	35.1	53.8	59.2
EBDT	28.4	24.5	33.6	52.6	57.9
PBT	18.7	13.4	22.4	41.5	46.6
Profit after MI & associate profit	13.1	10.8	16.6	30.7	34.5
EPS(\$)	0.42	0.35	0.53	0.98	1.10
Book value (\$)	2.91	2.92	3.61	4.50	5.35

income statement figures translated at average rates; balance sheet and cash flow at year end rates; projections at current rates (Rs 77.58/\$). All dollar denominated figures are adjusted for extraordinary items.

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buy: >20% accumulate: >10% to ≤20% hold: ≥-10% to ≤10% reduce: ≥-20% to <-10% sell: <-20%

Exchange Rates Used- Indicative

Rs/\$	FY18	FY19	FY20	FY21	FY22
Average	64.45	69.89	70.88	74.20	74.51
Year end	65.04	69.17	75.39	73.50	75.81

All \$ values mentioned in the write-up translated at the average rate of the respective quarter/ year as applicable. Projections converted at current exchange rate. Cumulative dollar figure is the sum of respective yearly dollar value.